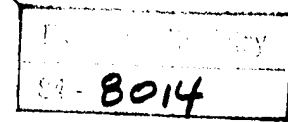



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AH DDF 84-04809

29 August 1984

MEMORANDUM FOR:

 Chief, Economics Division, OGI

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VIA: Deputy Director for Intelligence

FROM: Director of Central Intelligence

SUBJECT: Economic Change in the Third World

Congratulations on a job well and quickly done on your revision of the paper on Economic Change in the Third World: Shifting Strategic Leverage. I like the title, too. There probably will be more input, but you have provided a first-class framework.


William J. Casey

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DDI- 04809/84

17 AUG 1984

MEMORANDUM FOR: Director of Central Intelligence

VIA : Deputy Director for Intelligence
Director of Global IssuesFROM :
Chief, Economics Division

25X1

SUBJECT : Economic Change in the Third World

1. Action: No action required; for your information only.
2. Background: Attached is a redraft of the paper Economic Change in the Third World: Shifting Strategic Leverage, which you commented on in a 3 August 1984 memorandum.
3. I believe the changes and additions that have been made go a long way in meeting the issues you've raised in your memorandum. As far as the specifics are concerned:
 - o In paragraph 2 of your memorandum you pointed out that the paper "needs to go through the whole range of LDCs, not so much to assess their prospects for emulating the NICs, but as well their prospects for improving, no matter how little, their economic posture." I couldn't agree more. The earlier version had tried to make the point that the other LDCs can't follow in the wake of the NICs. However, they can still learn much about development by studying the NICs' use of the private sector, private investment, and the entrepreneurial spirit. To make this point clearer in the report, paragraph 4 in the Key Judgments was substantially modified.
 - o In the beginning of paragraph 3, you said that "I would think of taking a representative cross-section--your 24, a handful of others that have done poorly, others not so poorly . . . it is important not to tack an unworkable list of countries--I'd take a representative sample on which data is more likely to be available." As it turns out, the 24 "strategic" LDCs were in part selected to provide such a balance. To bring that point out in the new draft, the sample has been slightly expanded (see Table 5, just after page 15), and text has been added to make it clear that we're dealing with a representative sample that covers the full range of development performance (pages 14 and 15).

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- o In paragraph 4, you suggested developing a comparative picture of the "representative cross-section" of countries. The material on pages 15 through 17 as well as Tables 6 and 7 just after page 16, have been added to provide at least a broad-brush profile over time for these countries.
- o The main issue you brought up was made in paragraphs 2 and 5. In essence, you asked if the report could find a way to take the general assets of the individual LDCs and translate them into specific opportunities. Indeed, pages 24 through 30, and to a lesser extent pages 30 through 33--all of which were in the earlier version--were an attempt at this line of march. Specifically, they looked at the changes in investment policy which have already occurred, the potential that small investment opportunities hold, investment prospects in the energy area, the possibility of turning technology to the LDCs' advantage, the investment opportunities presented by export processing zones, and the investment intentions of major international corporations. In addition to this material, however, a major new section--Insert 4 which runs 22 single-spaced pages--has been inserted in the text after page 16. This new material marches through each of the LDCs in the new sample and lays out the specific assets they have and, to the extent possible, draws out some of the opportunities that are presented. The material in this section, for example, points out that:
 - Brazilian agriculture could be substantially improved by mechanization, and that there have been discoveries of major platinum deposits in Brazil.
 - While Indonesia's mineral production is substantial, only about five percent of the total land area has been geologically mapped in detail and roughly 20 percent is totally unexplored for its mineral potential.
 - While people are familiar with the cut flower example in Colombia, tomatoes have become an important export commodity for Morocco.

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- Guatemala's coastal waters are rich in shrimp, tuna and snapper, but the fishing industry is very undeveloped. The same is true for Mozambique which has substantial fishing potential, both in the Indian Ocean and in Lake Malawi.
- Promising deposits of bauxite have been located in the General Valley of Costa Rica. Likewise, phosphates have been found in Baja California and Mexico hopes that not only will these pay off, but that the province's newly discovered uranium reserves will indeed give Mexico the potential to become the world's third largest producer. Peru has also discovered major phosphate deposits, as well as coal, in recent years. For Sierra Leone, major deposits of bauxite have been found near Port Loko, and offer good investment potential.
- Investment in small manufacturing concerns has real potential in Peru. As it is the expansion of the fish-meal industry has already stimulated a number of spinoff firms in areas such as boatyards, and the production of nylon fishnets. Investments in fertilizer production in Mauritania and India could have major payoffs because of the poor state of present agricultural practices.
- In Zaire, investment in commercial logging has tremendous potential. Forests cover half of the country's total land, but only about two percent are worked commercially despite the fact that the forests have potential to produce over 2,000 economically valuable wood types.

This is simply the tip of the iceberg. Many more examples exist in the new insert. Moreover, Table 15, which runs 6 pages and appears just after page 30, also lays out not only government attitudes, policies and incentives towards direct foreign investment, but also provides some specific opportunities. The material in that table, for example, points out that:

- The most promising areas for new investment in Sri Lanka are agro-business and the manufacture of electronic components and graphite based products.
- In Morocco, mechanical and electric industries have received priority and fishing and tourism are actively being promoted.
- In Costa Rica, the government is encouraging light manufacturing, processed foods and agro-business.
- In the Philippines, some key opportunities exist in electronics, processed foods, and industries producing for the export market.

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Even more examples are provided in the table itself. Taken together, I believe all of this provides a relatively full treatment--given the nature of the report--of the asset/opportunity profile of individual LDCs.

4. Hopefully, you will agree that these modifications and elaborations respond not only to the spirit, but also to the letter of your 3 August memorandum.



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Attachment:
As stated

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**Economic Change and The Third World:
Shifting Strategic Leverage**

**Economics Division
Office of Global Issues**

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